

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 8 - RISK MANAGEMENT

As a municipal organization, the County has a wide range of loss exposures.

The County uses three internal service funds to account for and finance property/casualty, workers' compensation, and employee medical and dental benefits self-insurance programs. Unemployment liability, excluding that related to Public Transportation and Water Quality Enterprises, is accounted for in the funds with loss experience and the General Long-term Debt Account Group. The County contracts with a plan administrator to process medical and dental claims. County fund/claims managers, together with the Civil Division of the King County Prosecuting Attorney's Office, are responsible for processing all tort and workers' compensation claims.

Claims settlements and loss expenses are accrued in the three internal service funds for the estimated settlement value of both reported and unreported claims. These funds are responsible for collecting interfund premiums from insured funds and departments, for paying claim settlements and for purchasing certain policies. Interfund premiums are assessed on the basis of claims experience and are reported as revenues and expenses or expenditures.

Insurance Fund

The Insurance Fund, an internal service fund, accounts for the County's property/casualty program. The Fund, established in 1977, accounts for the County's exposures to loss due to the tortious conduct of the County which include those that are commonly covered by general liability, automobile liability, police professional, directors and officials, errors and omissions, and professional malpractice insurance policies. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2001, is \$46,190,229.

The County has been able to purchase insurance to cover property loss exposures but is self-funding the first \$5 million of any one loss for most general liability, automobile liability, police liability, directors and officials, errors and omissions, and Health Department professional malpractice exposures. Since July 1, 1993, the County has purchased excess liability coverage that provides \$20 million in limits above the \$5 million per occurrence self-insured retention for its general liability, automobile liability, police liability, directors and officials, errors and omissions, and Health Department professional malpractice exposures. Historically, the former Metro government purchased \$45 million in limits above a \$5 million per occurrence self-insured retention for its general liability, automobile liability, directors and officials, and errors and omissions exposures.

Effective October 1, 1995, the County's excess liability policy was amended to include the exposures of the former Metro government's Public Transportation and Water Quality functions. The policy limits were increased to \$50 million above a \$5 million per occurrence self-insured retention. Effective August 1, 1997, the County increased limits to \$75 million above its \$5 million self-insured retention. Effective September 1, 1998, the County increased limits to \$100 million above a \$2.5 million per occurrence self-insured retention. The County also purchases property insurance that provides a blanket limit of \$3.3 billion with \$240 million in earthquake and \$150 million in flood limits.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 8 – CONTINUED

In addition to its property insurance policies and excess liability policy, the County has specific liability insurance policies to cover some of its other exposures. The County has a liability policy for the King County International Airport with policy limits of \$300 million; a property and liability policy to cover the police helicopter activities (with liability limits of \$50 million); and excess coverage for the Workers' Compensation program. The County also has a combined "crime" coverage policy that provides \$10 million in limits with a \$25,000 deductible.

Coverage is provided for protection against loss caused by employee dishonesty; the dishonest acts of third parties in writing or altering checks or other financial instruments; the theft, disappearance and destruction of monies at County locations or when conveyed by a messenger; and for faithful performance of duty. In the past three years, two occurrences have resulted in payments in excess of the self-insured retention. There have been no settlements in excess of the insurance coverage in the prior three years.

During 2001 there were significant changes made in the County's insurance program. The County was able to retain a \$2.5 million per occurrence self-insured-retention (S.I.R) but must satisfy a \$1 million "corridor" deductible (i.e., the County must pay an additional \$1 million self-insured retention either from a single large loss or a combination of losses above the County's \$2.5 million deductible). The premium increased from \$1.5 million to \$2.2 million (on an annualized basis) for \$97.5 million in limits. The substantial increase in premium is attributable to the County's recent large loss experiences (Aurora Bridge and the Solid Waste landfill cases), the substantial tightening in the insurance marketplace, and several recent large outcomes within Washington State involving other governmental entities.

In line with the increasing importance of its program of self-insurance, the County has significantly increased funding for the program commensurate with increases in estimated case reserve requirements and incurred-but-not-reported losses. The cash balance in the Insurance Fund has increased from \$2.1 million at December 31, 1985, to more than \$72 million at December 31, 2001.

In addition to funding reserves for known and incurred-but-not-reported cases, the County has adopted a plan to create catastrophic loss reserves to respond to large, non-recurring losses. The catastrophic loss financing program is financed with annual contributions in excess of \$1 million with interest earnings being invested to the benefit of the catastrophic loss reserves. Through December 31, 2001, \$14.7 million of the \$72 million cash balance in the Insurance Fund has been designated for catastrophic loss reserves (see Note 12, "Reserves, Designations, and Changes in Equity").

With the assistance of an actuary, the Insurance Fund's claims liability is estimated based upon historical claims experience and other actuarial techniques. The changes in the Insurance Fund's claims liability in 2000 and 2001 were as follows:

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001**

NOTE 8 – CONTINUED

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End-of-Year Liability</u>
2000	\$ 47,255,000	\$ 26,918,350	\$ (24,982,350)	\$ 49,191,000
2001	49,191,000	8,390,564	(11,391,335)	46,190,229

Safety and Workers' Compensation Fund

The Safety and Workers' Compensation Fund, an internal service fund, accounts for the County's self-insurance for workers' compensation as certified under the *Revised Code of Washington*, Industrial Insurance Act, Title 51. Interfund premiums are based on the hours worked by the fund/department-covered employees times an hourly rate that varies for different classes of employees and are recorded as quasi-external interfund transactions. Public Transportation internal fund charges are derived from actuarial projections of their future claims and administrative costs. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2001, is \$12,500,000.

The County purchases a workers' compensation excess policy that provides statutory limits above a \$400,000 per occurrence self-insured retention. Effective June 1995 the self-insured retention was increased to \$500,000. There has been one settlement in excess of the insurance coverage in the prior three years.

The Fund's claims liability is estimated based on reserves for known claims plus a liability for incurred but unreported claims based on historical experience. Changes in the Safety and Workers' Compensation Fund's claims liability in 2000 and 2001 were:

	<u>Beginning of Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End-of-Year Liability</u>
2000	\$ 12,050,000	\$ 12,920,000	\$ (12,550,000)	\$ 12,420,000
2001	12,420,000	14,038,600	(13,958,600)	12,500,000

Employee Benefits Program Fund

The Employee Benefits Program Fund, an internal service fund, accounts for employee medical, dental, vision, life, accidental death and dismemberment, and long-term disability benefit programs, except for Public Safety LEOFF retiree medical benefits. There are six insured and two self-insured medical plans. Fifty-one percent of County employees were insured through the two self-insured medical plans. The dental and vision plans are also self-insured. Interfund premiums are determined on a per employee per month basis and charged to departments through a composite rate of expected claims, expenses and premiums. In some cases, there are employee contributions towards premiums. The estimated liability for probable self-insurance losses (reported and unreported) recorded in the fund at December 31, 2001, is \$10,761,993.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 8 – CONTINUED

The Fund's claims liability is based on historical experience. Changes in the Employee Benefits Program Fund's claims liability in 2000 and 2001 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2000	\$ 8,872,840	\$ 56,406,867	\$ (54,593,420)	\$ 10,686,287
2001	10,686,287	59,738,051	(59,662,345)	10,761,993

Unemployment Liability

The County has elected to retain the risk for unemployment compensation payable to former County employees. The State of Washington Employment Security Department bills the County for the unemployment compensation benefits paid to former employees. Expenditures are then recognized in various County funds. In addition, a long-term liability of \$1,172,763 is recorded in the General Long-term Debt Account Group for the estimated future claims liability for employees as of December 31, 2001.

Changes in the General Long-term Debt Account Group's liability for unemployment compensation in 2000 and 2001 were:

	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	End-of-Year Liability
2000	\$ 969,000	\$ 1,266,500	\$ (1,184,345)	\$ 1,051,155
2001	1,051,155	1,534,576	(1,412,968)	1,172,763

Component Unit – Harborview Medical Center**Insurance Fund**

Harborview Medical Center (HMC) participates in a self-insurance revolving fund for professional liability coverage through the University of Washington (UW). As of June 30, 2001, the UW did not carry commercial general liability coverage at levels below \$2 million per occurrence. The UW's philosophy with respect to its self-insurance programs is to fully fund its anticipated losses through the establishment of actuarially determined self-insurance reserves. These reserves are deposited in a statutorily created and regulated fund and can only be expended for payment of claim costs and related expenses.

The annual funding to the self-insurance revolving fund is determined by the UW administration based on recommendations from the UW's Risk Management Advisory Committee. The HMC's *pro rata* share of premiums paid to the self-insurance revolving fund were approximately

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2001

NOTE 8 – CONTINUED

\$957,000 in the period July 1, 1999 to June 30, 2000 and \$924,000 in the period July 1, 2000 to June 30, 2001.

Employee Benefits Program

Term insurance, salary continuation insurance, and a variety of medical insurance plans are available on a group basis to all permanent employees of HMC. The plans are designated and authorized through the State Employees Insurance Board covering all eligible faculty and staff of the public institutions of higher education.

All employees of HMC are covered by Workers' Compensation and Medical Aid Acts for injuries and occupational diseases that occur during the course of their employment. Coverage includes doctors' services, hospital care, ambulance, appliances, compensations for permanent partial and total disability, and allowances and pensions to surviving widows and children in the case of fatal injuries. A majority of the premium cost is paid by the UW and a small deduction is made from the employee's pay to conform with the state law.

Component Unit – WSMLBS Public Facilities District

The Washington State Major League Baseball Stadium Public Facilities District (PFD) carries commercial general liability insurance with a general aggregate limit of \$2 million and a per occurrence limit of \$1 million. In addition, excess liability coverage is in force at aggregate and per event limits of \$5 million. Business automobile liability coverage limit is at \$1 million per any one accident or loss. Commercial personal property losses are covered up to the replacement value not exceeding \$100,000 with separate coverages for earthquake and flood losses.

The PFD also has purchased employee benefit liability coverage with an aggregate limit of \$3 million and a per employee limit of \$1 million.